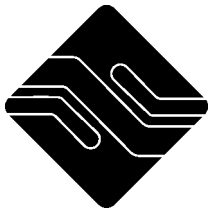


## NORTH AMERICAN DEVELOPMENT BANK (NADB)



THE NADBANK IS A BILATERALLY-FUNDED, INTERNATIONAL ORGANIZATION, IN WHICH MEXICO AND THE UNITED STATES PARTICIPATE AS EQUAL PARTNERS.



# NORTH AMERICAN DEVELOPMENT BANK

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## GENERAL OVERVIEW

### ORIGINS

The North American Development Bank (NADB) and its sister institution, the Border Environment Cooperation Commission (BECC), were created as part of the North American Free Trade Agreement (NAFTA) process. The NADB operates under the November 1993 Agreement Between the Government of the United States of America and the Government of the United Mexican States Concerning the Establishment of a Border Environment Cooperation Commission and a North American Development Bank (the "Charter"). Established in San Antonio, Texas in November 1994, the NADB is a bilaterally-funded, international organization, in which Mexico and the United States participate as equal partners.

The NADB has a binational Board of Directors consisting of six Members.

#### From the United States:

Ms. Carol Browner, Administrator, U.S. Environmental Protection Agency, Washington, D.C.  
Ms. Madeleine Albright, Secretary of State, Washington, D.C.  
Mr. Robert E. Rubin, Secretary of the Treasury, Washington, D.C.

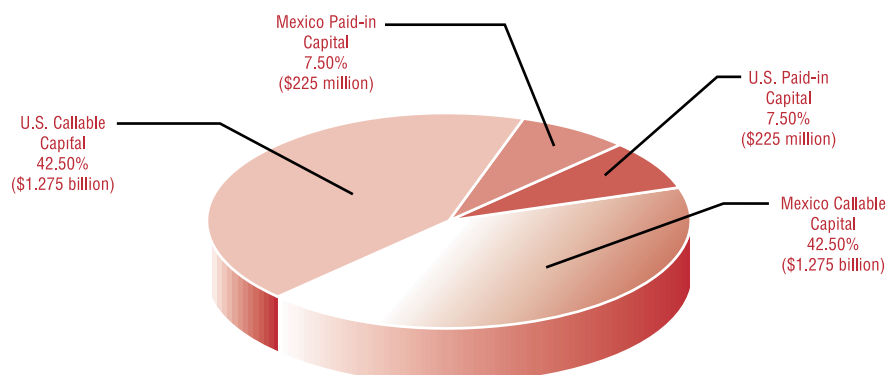
#### And from Mexico:

Mr. Jose Angel Gurria, Secretary of Finance and Public Credit, Mexico City  
Mr. Herminio Blanco, Secretary of Trade and Industry, Mexico City  
Mr. Carlos Rojas, Secretary of Social Development, Mexico City

### CAPITAL

The NADB's authorized capital of three billion dollars is subscribed in equal shares by the two governments. Fifteen percent of this capital, 450 million dollars, is subscribed as paid-in capital, while the remainder is subscribed as callable capital.

### Bank Capitalization After Full Subscription



***Paid-in capital*** consists of actual cash funds contributed to the NADB by the two governments. ***Callable capital*** is composed of funds which the governments must provide to the NADB in the future, if required, to meet outstanding debt obligations of the NADB or guaranties issued by the NADB. Callable capital, therefore, is not a cash contribution.

It is anticipated that the NADB's cost of borrowing will be at a rate slightly higher than U.S. Treasury rates (for similar maturities), at least during its initial years of operation. The cost of borrowing and bank operations, plus credit risk coverage, determine the rate at which the NADB can lend.

## MISSION

The NADB and the BECC were created by the United States and Mexico in a joint effort to preserve and promote the health and welfare of the border environment and its residents. Specifically, the two institutions were established to promote environmental infrastructure development related to water supply, wastewater treatment and municipal solid waste management in the border region, which is defined in the Charter as the area within 100 kilometers (62 miles) north and south of the international boundary between the two countries.

The NADB's role is to facilitate financing for the development, execution and operation of environmental infrastructure projects that have been certified by the BECC. To do this, the NADB provides three primary services to border communities:

**FIRST.** As an *advisor and financial strategist*, the NADB provides basic guidance to smaller communities that have neither the experience nor the institutional and financial capacity to prepare infrastructure development options. The NADB can also help all communities, large or small, coordinate the fiscal aspects of their projects in order to ensure that preliminary proposals are complete, financially viable, and the best solution on a present value basis.

**SECOND.** As an *investment banker*, the NADB works to structure the most affordable financial package possible for its clients and seeks ways to reduce financing costs by securing funding from both private and public sources. The NADB and its funding partners are also developing innovative and flexible financing instruments that can be tailored to the specific needs of each border community.

**FINALLY.** As a lender, the NADB provides gap financing for project costs not covered by other funding sources. In this context, the NADB promotes long-term project sustainability, through user fees or other revenue, in order to ensure that utility systems are efficiently operated and adequately maintained and that communities will be prepared to meet future infrastructure requirements without hardship.

## NADB OBJECTIVES

The BECC-NADB process emphasizes that permanent solutions to border pollution problems are possible only through sustainable development, grassroots initiatives, and the coordinated efforts of all interested parties. Based on this philosophy, the NADB is actively pursuing two broad objectives:

**First, the NADB is committed to assisting border communities make a gradual transition from projects that are fully subsidized by grants and government budget allocations to projects that are fiscally sound and locally sustainable.** As part of this transition, the NADB is helping border communities strengthen their financial and institutional capacities so that their approach to environmental infrastructure includes comprehensive long-term planning.

***Second, the NADB is committed to building strong partnerships with stakeholders at every level, including border residents; project sponsors; municipal utility managers; local, state, and federal elected officials; government agencies and programs; non-governmental organizations; and the private sector.***

The NADB firmly believes that by working together and combining resources, real progress can be made toward creating a cleaner and healthier environment along the border for current residents, as well as for future generations.

## **ASSISTANCE PROGRAMS**

The NADB has initiated a broad range of programs and services to facilitate border environmental infrastructure projects. These include the NADB advisory and financial services, and the loan and guaranty program, discussed above. In addition, the NADB has two assistance programs.

### **INSTITUTIONAL DEVELOPMENT COOPERATION PROGRAM (IDP)**

The NADB has created the Institutional Development Cooperation Program (IDP) as a crucial complement to its loan and guaranty program. The IDP assists public utilities achieve effective and efficient operation of their water, wastewater treatment, municipal solid waste, and related services by reinforcing their institutional capacities, and thus create a stronger financial foundation that will support the development of future infrastructure. The NADB Board has allocated \$4 million for the IDP in 1997.

Public utilities that manage water, wastewater, or municipal solid waste located within 100 kilometers of the U.S.-Mexico border are eligible for IDP support. Priority will be given to eligible utilities that have a BECC-certified project or a Step I BECC certification application on file and need institutional strengthening to facilitate certification and financing.

The IDP is a two-phase program. During the initial phase, the NADB can provide personnel and resources for a system evaluation, if necessary, of the eligible utility at no cost to the community. This evaluation could examine infrastructure; technical and operating factors; rate policies and schedules; planning, organization and administration; budget and accounting; finances; and privatization processes. In the second phase, a plan of action based on evaluation results will be devised to address the needs of the utility. Resources may also be allocated to improve information and administrative systems, provide training and enhance other areas that have an impact on the financial structure of the utility.

To date, the IDP has been involved with projects for 24 communities: one system evaluation has been completed; thirteen projects with a combined cost of \$1.7 million are in progress (either under way, being bid, or in final formulation); and applications for ten communities are being reviewed. Of particular note to CalBECC are IDP projects in Brawley, California (a \$40,000 wastewater rate study will be used to develop a financial plan for a proposed wastewater project), and in Mexicali, Baja California (a \$250,000 grant to perform a water line survey, and to develop and install a management information system).

#### BORDER ENVIRONMENT INFRASTRUCTURE FUND (BEIF)

In order to finance its loan and loan guaranty operations, the NADB must borrow from the capital markets; therefore, the terms of its loans and guaranties are market-based. However, because of the high cost of projects, many communities (especially small, poor communities) in the border region cannot afford any credit financing (even at zero interest rate) that is not accompanied, at least initially, by a grant component.

In order to address this affordability issue, the NADB has established the Border Environment Infrastructure Fund (BEIF) to receive, administer and coordinate contributions of grant resources for border environmental infrastructure projects. The BEIF will allow the NADB to develop specific, appropriate and affordable financing packages for border infrastructure projects through the judicious combination of grant funds with its loan and loan guaranty program.

In 1997, the United States Environmental Protection Agency (EPA) made an initial contribution of \$170 million to the BEIF for use in water and wastewater projects on both sides of the U.S.-Mexico border.

The principal objective of the BEIF is to facilitate the expansion and improvement of water and wastewater environmental infrastructure throughout the U.S.-Mexico border region by providing coordinated financial support for the construction of projects and related activities, particularly with respect to financial cooperation among the NADB, EPA and Mexico's Comisión Nacional del Agua (CNA). Only projects certified by the Border Environment Cooperation Commission (BECC) will be eligible for funding. Priority will be given to projects with maximum funding from other sources and where BEIF funding is necessary to complete the financing of the project.

For each project requesting funds, the NADB will perform an analysis to determine whether that project meets the affordability guidelines. Affordability is a measure of a community's ability to pay the cost of its water and wastewater infrastructure. Based on the affordability analysis, BEIF funds will be targeted at communities that could not otherwise afford to develop and execute necessary infrastructure.

Funds may be used for both transition and construction assistance.

Transition assistance may be used:

- to ease a community's adjustment over time to increases in user fees that will be necessary to pay for project construction, operation and maintenance, by providing capitalized interest funds over a 5 to 7 year period; or
- to support regionalization by providing funds to support the debt service costs of regional plants as service levels reach targeted demand in neighboring communities.

Construction assistance may be used to pay construction costs that are not funded by other sources. Construction assistance will be provided after transition assistance has been maximized.

## PROJECTS

The NADB has approved several projects for NADB financing over the last two years. These include a \$25 million water supply plant in Brawley, California, that is now under construction; a \$4 million expansion of a water and wastewater treatment facility in Mercedes, Texas, that is also under construction; an \$830,000 water supply and wastewater improvement project in Naco, Sonora, that will have significant benefits for Arizona residents; and a \$1.1 million wastewater treatment project in Matamoros, Tamaulipas, that showcases the NADB's ability to enter into partnerships with the private sector.

The NADB role in the Brawley project is particularly instructive. The NADB served as an advisor and lead investor for the City of Brawley. For one year after certification of the project, the NADB worked with the community: developing an affordable project; beginning a credit rating process; creating permanent reserves in the financial structure of the project aimed at avoiding future maintenance and development problems; participating in public rate hearings; reviewing and rejecting the project's first construction bids (30% over engineer's budget) as well as helping the City restructure the second construction bids which resulted in a project cost 20% below the original engineer's budget.

As lead investor, the NADB structured the terms of the financing and helped the City bid for a bond underwriter. The NADB also committed to buy up to 30 percent of the bond issue in order to attract other investors. The \$18 million non-rated issue was a success attracting sophisticated institutional investors. The NADB went from an original estimated participation of 30% (\$6 million) to 5.4% (\$1 million), to allow for the additional participation of private sector investors. The transaction closed on January 2, 1997, after being approved for funding on December 2, 1996.

In addition, the NADB is providing assistance to eight other BECC-certified projects, including the Tijuana, Baja California, \$18 million project for construction of a new sewage conveyance system and pump station, and rehabilitation and expansion of a treatment plant. The NADB is participating as an investment banker and direct lender for the rehabilitation and expansion of the treatment plant. The NADB's BEIF participation has been determined as \$16 million, as a complement to the investment commitments related to the International Wastewater Treatment Plant in San Ysidro. The NADB is negotiating with Tijuana's local water utility (CESPT) a loan for an estimated amount of \$2 million plus.